

IN THE
Supreme Court of the United States

OCTOBER TERM, 1975

NO. 75-1658

WESTWOOD CHEMICAL, INC. et al.,
Petitioners,

v.

PPG INDUSTRIES, INC.,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR
THE SIXTH CIRCUIT

REPLY TO BRIEF FOR RESPONDENT IN OPPOSITION

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TABLE OF CONTENTS

	<u>PAGE(S)</u>
INTRODUCTION (Contrary To Respondent's Contention, The Petition Does Present A Question Within Certiorari Jurisdiction Of This Court.	2
To Satisfy The Strong Federal Policy Of <u>Lear</u> The Cancellation Clause In This Agreement Must Be Exercised Before A Challenge Of Validity	4
The Foreign Patents Were In Fact Relied Upon By Petitioner In Both Courts Below.	9
Invalidity Of American Patents Was Not Conceded By Petitioner In The District Court. (The Doctrine Of Eviction Was Not Superseded.)	14
CONCLUSION	16

TABLE OF AUTHORITIES

<u>CASES</u>	<u>PAGE(S)</u>
<u>American Sterilizer Company v.</u> <u>Sybron Corporation, et al</u> , 526 F.2d 542 (3rd Cir. 1975)	8
<u>Beckman Instruments, Inc. v.</u> <u>Technical Development Corporation</u> , 433 F.2d 55 (7th Cir. 1970)	13
<u>Blonder-Tongue Laboratories, Inc. v.</u> <u>University of Illinois Foundation</u> , <u>et al</u> , 402 U.S. 313 (1971)	2
<u>Crane v. Aeroquip Corp.</u> , 504 F.2d 1086 (7th Cir. 1974)	8
<u>Drackett Chemical Co. v. Chamberlain</u> <u>Co.</u> , 63 F.2d 853 (6th Cir. 1933)	15
<u>Lear, Inc. v. Adkins</u> , 395 U.S. 653 (1969)	2,3,4,6,9
<u>Product Engineering & Manufacturing,</u> <u>Inc. v. Barnes</u> , 424 F.2d 42 (10th Cir. 1970)	7
<u>Troxel Manufacturing Co. v. Schwinn</u> <u>Bicycle Co.</u> , 465 F.2d 1253 (6th Cir. 1972)	16

-iii-

RULE

PAGE(S)

Rule 19, U.S. Supreme Court
Rules. 2

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INTRODUCTION

Contrary to the contention of Respondent, the petition in this case does present a question within the certiorari jurisdiction exercised by this Court. For the reasons stated herein, the purported interpretations of the Courts below of this Court's decisions in Lear, Inc. v. Adkins, 395 U.S. 653 (1969) and Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation, et al, 402 U.S. 313 (1971) are not only erroneous but create conflicts of major importance of rights under patent licensing agreement. The petition is therefore within Rule 19 calling for review by this Court for special and important reasons; to wit, to clarify the scope of the Lear doctrine with respect to a factual setting, such as here, which is clearly distinguishable from that of the facts prompting the decision in Lear.

It should be noted that a substantial portion of Respondent's "Reasons for Denying the Writ" constitutes the reassertion of its argument before the Court of Appeals of its own appeal from that portion of the judgment of the District Court favoring petitioner. See Respondent's Brief in Opposition, at 6-7. Since Respondent failed to file its own Petition from the judgment of the Court of Appeals affirming the District Court and rejecting the same arguments, they are clearly inappropriate here. In fact, the only questions of concern before this Court arise from error in rejection of the cross-appeal of petitioner in the Court of Appeals involving the elements which distinguish this license agreement from the one in Lear v. Adkins, supra; (1) the existence of valid and enforceable foreign patents which constitute sufficient consideration for the license agreement notwithstanding

the recently adjudicated invalidity of the two American patents, and (2) the existence of an unqualified cancellation clause which permitted the licensee to unilaterally cancel the agreement and continue to exercise the patent rights if it felt that the patents were no longer valid, but of which the Respondent to this day has not availed itself.

I.

To satisfy the "strong federal policy" referred to in Lear, the cancellation clause in this Agreement must be exercised before a challenge of the validity of the patents therein can be had.

Respondent's analysis of Lear is far too superficial. This Court's reference to the "muzzled" licensee in Lear must be viewed with respect to the facts of that case. In Lear,

the licensee had only two choices under the license agreement: (1) to continue using the patent and paying royalties therefore under the license agreement without regard to such patent's validity, or (2) to cancel the agreement and forever cease using the subject matter of the patent, such restrictive cancellation right effectively eliminating any possible challenge of the patent's validity. This Court recognized that Lear (the licensee) was "muzzled" since continued use of the patent claims after cancellation, even if in fact invalid, would subject Lear to an injunction which would put it out of business. The only alternative for this Court was the abrogation of the doctrine of licensee estoppel to correct the inequities created by a license agreement which does not permit an unqualified cancellation, which, as noted by this Court, squelched the incentive of the party most interested in

challenging the patent's validity.

These inequities are clearly absent in the present case. Under the Agreement, Respondent was free to cancel the license and continue using the patents subject only to potential liability as an infringer. And, consistent with the Lear policy, when sued for infringement, Respondent was free to challenge the validity of the once licensed patents while continuing to utilize the patent claims. To hold otherwise, and allow Respondent to challenge the patents' validity without cancellation of the Agreement simply reverses the roles in imposing the inequities on the licensor.¹ This Court could not have intended

¹ For example, under the decisions of the Third and Sixth Circuits as they now construe Lear; one can take a freely cancellable license with no intention of paying royalties, then before or after any payment is due, file a declaratory judgment to contest validity,

through Lear to squelch the development of useful arts and science.

Respondent's reference to Product Engineering v. Barnes, 424 F.2d 42 (10th Cir. 1970) is misplaced. In Barnes, the court merely held that a state court entertaining a contract action based on a patent license may not be deprived of jurisdiction merely on the filing of an action for declaration of patent invalidity in the federal court. The federal suit was held to be properly dismissed. There is no evidence whether or not the license in

knowing full well that his case will not be heard for a period of years because of crowded court dockets and the delay and burdens that a large corporation with almost unlimited finances can impose on the small patentee. The licensee keeps its license so, if it finally is determined that the patent is valid, he merely pays up back royalties at the low rate, and if it is invalid, he's home free. If in the meantime litigation with others was involved, he's hedged his position.

that case was cancellable as drawn, or if in fact the licensee attempted to cancel the license prior to trial.

Respondent's reliance on Crane v. Aeroquip Corp., 504 F.2d 1086 (7th Cir. 1974) is also unwarranted. That case doesn't even involve the cancellation of the license agreement by the licensee, or the right to cancel by either party. Instead, the licensor tried to cancel the agreement because of the licensee's failure to pay royalties on a modified structure that didn't even come within the claims of the licensed patent. The court merely held that these facts were not sufficient to warrant cancellation by the licensor.

Finally, Respondent's reliance on American Sterilizer Co. v. Sybron Co., 526 F.2d 542 (1975) is clearly misplaced. As was pointed out in the petition (see Petition, pp. 32-33), the Third Circuit regrettably misinterpreted

Lear factually to have involved an effectual cancellation clause. Had that been true, Lear would never have reached the trial court. It is therefore clear that the cancellation clause here in issue does constitute a basis of distinction between Lear and the present case.

II.

The foreign patents were in fact relied on by Petitioner in both Courts below.

The existence of the ten (10) foreign patents in this license agreement has always been an integral part of Petitioner's case. These foreign patents are part and parcel of the totality of consideration for the within patent license agreement, obtained through uncoerced, bona fide arms-length bargaining between the Petitioner and the Respondent. Specific reference was made to the foreign

patents in testimony by the patentee-petitioner, T.A. TeGrotenhuis, in the District Court. J. App. at 237-238, 74; as well as the District Court in its opinion. See Petition, App. B. 20a. However, the District Court appeared to avoid the foreign patent issue, seemingly because it was without jurisdiction to affect such patents.

Respondent's contention that the foreign patents were "royalty-free" and therefore of no consequence with respect to its liability for royalties under the Agreement is misleading, having been taken out of context. Under Subsections 3.2 and 3.3 of the Agreement, petitioner granted to Respondent and to Respondent's customers a non-exclusive, royalty-free immunity from suit for infringement under the foreign patents of licensed products manufactured in the United States pursuant to the license and on which royalty is payable to Petitioner.

(J. App. 259). Under Subsection 4.1 of the Agreement, a royalty is payable on the net or equivalent net sales of all primary products which are covered by a claim(s) of an unexpired, licensed patent. (J. App. 260). Under the Agreement, Respondent and its customers are given immunity from infringement suits under the foreign patents in consideration of which Respondent as licensee agreed to pay the royalty specified in Subsection 4.1. Thus, Respondent's assertion that such products sold in foreign countries are completely royalty-free, (Respondent's Brief in Opposition to Petition, at 8), is deceiving. Respondent has and still receives benefits under the Agreement, namely, freedom from infringement suits in foreign countries for itself and its customers.²

² Without such immunity, Respondent's customers having, for example, a motor vehicle with a

It then follows that despite the American patents being declared invalid, the utilization of the claims thereof to manufacture goods for which immunity was granted under foreign patents is itself a sufficient and valuable consideration to support the specified royalty obligation until the license agreement is cancelled.

Respondent's further contention that it cannot be held liable for royalties under the Agreement on the basis of the foreign patents since no evidence was adduced below to show that Respondent ever used such foreign patents is wholly without merit. It is a fundamental tenet of patent and contract laws that the thing bargained for by Respondent in this

fiber glass body would be infringing the three Canadian patents of petitioner (J. App. 253, 255) by use of such in Canada. Perhaps that is why Respondent throughout this litigation has avoided the simple expedient of unqualified license cancellation.

license agreement is the right to use the patents, and not the actual use of the patents. Fear of foreign infringement suits could well be the motive to not cancel the Agreement of Respondent to the unfair detriment of Petitioner.

As cited by Respondent, (Brief in Opposition, p. 9), Beckman Instruments, Inc. v. Technical Development Corporation, 433 F.2d 55 (7th Cir. 1970) is a case quite similar in principle to that here. The court, in Beckman said:

"We assume, of course, that if the '305 patent is shown to be invalid, it cannot be the basis for royalties, but does not render the entire licensing agreement an improper attempt to use patent leverage to extend the scope of the patent monopoly." 433 F.2d at 62.

This statement supports Petitioner's position when viewed in context, and not Respondent's contention. By implication, the Beckman court is saying that royalties can no longer be

collected for goods manufactured and/or sold under an invalid patent, but can be collected under the contract where other valid patents continue to provide sufficient consideration therefore.

III.

The invalidity of the American patents '378 and '566 was not conceded by Petitioner in the District Court.

Contrary to Respondent's contention (Respondent's Brief in Opposition, p. 5), Petitioner did not admit in the District Court that the '378 and '566 patents were dead in view of the prior decisions stated in Respondent's Brief. In fact, at pages 108-110 of the Judicial Appendix, Petitioner made it clear that the determination of the validity of the '378 and '566 patents should be held

in abeyance as a collateral issue. As stated in the Petition, Petitioner withdrew from its Notice of Cross-Appeal from the District Court's holding of invalidity of the unadjudicated claims of the two United States patents solely to simplify issues and provide a date for eviction from all claims of such United States patents. At the very least, therefore, until the judgment of the instant District Court finally declaring all claims of the American patents invalid, the doctrine of eviction should entitle Petitioner to a royalty to the date of the District Court judgment on the American Patent claims. The mistaken holding of the Court below that Lear supersedes the doctrine of eviction exemplified by Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853 (1933) where there is no attempt to cancel the agreement and cancellation could have been completely effectual at any time by

licensee should be overruled. In this connection, the Sixth Circuit itself has held in Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F.2d 1253, 1259 (1972):

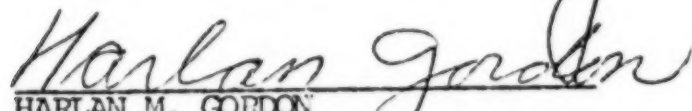
"We hold that Lear did not overrule Drackett Chem. Co. v. Chamberlain Co., 63 F.2d 853 (6th Cir. 1933), and that the rationale of Drackett remains the law of this Circuit except insofar as it expresses the licensee estoppel doctrine."

CONCLUSION


For the reasons above stated, we submit that the petition should be allowed.

Respectfully submitted,


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